

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY**

**FOR
THE LONG-TERM CARE (LTC) FUND**

June 15, 2011

This policy is effective immediately upon adoption and supersedes all previous policies governing the Long-Term Care ("LTC") Fund.

I. PURPOSE

The California Public Employees' Retirement System ("CalPERS") Total Fund Statement of Investment Policy, adopted by the CalPERS Investment Committee ("Committee"), sets forth CalPERS overarching investment purposes and objectives with respect to all its investment programs.

This document sets forth the investment policy ("Policy") for the LTC Fund. The design of this Policy ensures that investors, managers, consultants, and other participants selected by CalPERS take prudent and careful action while managing the LTC Fund. Additionally, use of this Policy assures sufficient flexibility in managing investment risks and returns associated with the LTC Fund.

CalPERS Long-Term Care Program offers long-term care benefits as an option to members. It is not a public employee provided benefit and is entirely funded by enrollee premiums. The Long-Term Care Fund was established to administer and finance the Program, which is directed by CalPERS Board of Administration.

II. STRATEGIC OBJECTIVE

The LTC Fund shall be managed to accomplish the following:

- A. Invest in an asset allocation mix with targets and ranges based on a periodic asset liability management review.
- B. Achieve the highest total rate of return reasonably possible within prudent levels of risk and liquidity for the LTC Fund's liabilities.
- C. Maintain sufficient diversification to avoid significant losses and preserve capital.
- D. Ensure that the asset class policy ranges approved by the Committee are adhered to, and that any rebalancing is performed efficiently and prudently.
- E. Maintain adequate liquidity to meet cash needs.

III. RESPONSIBILITIES

- A. In addition to the Committee's responsibilities outlined in the Total Fund Statement of Investment Policy, the Committee is also responsible for approving asset classes for investment and approving a policy target allocation, permissible range, and benchmark for each asset class.
- B. The Chief Investment Officer ("CIO") is responsible for the following:
 - 1. All aspects of portfolio management including monitoring, analyzing, and evaluating performance relative to the appropriate benchmark.
 - 2. Providing individualized asset allocation strategy recommendations to the Committee, including selection of asset class benchmarks, Policy targets and ranges.
 - 3. Managing the asset class allocations of the LTC Fund within Policy ranges approved by the Committee, in accordance with Policy guidelines.
 - 4. Creating internally managed funds and soliciting externally managed funds to be used in the composition of the LTC Fund.
 - 5. Identifying opportunities and making recommendations to the Committee consistent with pertinent delegations.
 - 6. Reporting internally to the Committee concerning the implementation of this Policy. This report shall include, but is not limited to, the current market value and asset allocations compared to the Policy targets and ranges.
 - 7. Monitoring the implementation of, and compliance with, the Policy. Staff shall report concerns, problems, material changes, and all violations of Guidelines and Policies at the next Committee meeting. All events deemed materially important will be reported to the Board immediately. These reports shall include explanations of any violations and appropriate recommendations for corrective action.
- C. The [General Pension Consultant](#) ("Consultant") is responsible for:
 - 1. Monitoring, evaluating, and periodically reporting to the Committee on the LTC Fund performance relative to the benchmark and Policy.
- D. External Managers ("Manager") are responsible for aspects of portfolio management as set forth in each Manager's contract with CalPERS and shall fulfill the following duties:

1. Communicate with CalPERS staff, as needed, regarding investment strategies and investment results.
2. Monitor, analyze, and evaluate performance relative to the agreed-upon benchmark.
3. Cooperate fully with CalPERS staff, Custodian, and Consultant concerning requests for information.

IV. PERFORMANCE OBJECTIVE AND BENCHMARK

- A. The Fund benchmark for the Affiliate Funds is specified in the Policy for Benchmarks. The LTC Fund is included in the Affiliate Funds section of the Policy.
- B. CalPERS shall invest the assets of the LTC Fund to meet or exceed the actuarial rate over the long-term.

V. INVESTMENT APPROACHES AND PARAMETERS

A. Philosophy and Approach

The LTC Fund shall be managed in accordance with the CalPERS Total Fund Statement of Investment Policy and in a manner consistent with the respective investment policy governing each asset class. Such policies approved by the Committee shall specify the method and parameters for implementation and provide for the ongoing monitoring of that asset class.

B. Strategic Asset Allocation Process

A comprehensive asset allocation strategy analysis shall be completed annually and will be presented to the Committee for review and approval of the Policy target asset allocations and ranges. The CIO may recommend a more frequent analysis if expected returns, risks or liability values have substantially changed since the prior analysis. The CIO may also recommend to the Committee changes in the Policy asset allocation targets and ranges. A target for cash is exempt from consideration.

C. Fund Structure/Parameters

Staff shall manage the LTC Fund in accordance with the approved strategic asset allocation. CalPERS Custodian shall employ a [unitized fund structure](#) to maintain separate and distinct historical records and to produce individual [net asset values \(NAV's\)](#) for each asset class.

D. Policy Asset Allocation Targets and Ranges

The Committee shall approve Policy asset allocation targets and ranges expressed as a percentage of total assets. The Committee shall set Policy ranges sufficiently wide to permit efficient and flexible implementation, yet sufficiently narrow to maintain the basic risk and return relationship established by the allocation targets.

The LTC Fund Policy asset allocation targets and permissible ranges are as follows:

Asset Class	LTC Fund	
	Policy Allocation	Policy Range
U.S Inflation Linked Bonds	15%	+/- 4%
U.S. Nominal Bonds	30%	+/- 5%
Global Equity	44%	+/- 5%
Global Public Real Estate	8%	+/- 2%
Commodities	3%	+/- 2%
Expected Return	6.25%	
Expected Risk	8.63%	
Return/Risk	0.72%	

E. Rebalancing

Adherence to the Policy asset allocation targets and ranges shall be monitored and reported to the Investment Committee as part of the quarterly performance report. This report shall display a comparison between the LTC Fund asset class allocations and the Policy asset allocation targets and ranges. The report shall also compare the investment performance results of each asset class and the benchmark returns.

Asset class allocations shall be managed to be within Policy ranges. Cash in the portfolio will be held within a range of 0 – 1%. Allocations may temporarily deviate from Policy ranges due to extreme market volatility. If an asset class allocation exceeds the Policy range, staff shall return the asset allocation to within its Policy range in a timely manner, with the exact time period primarily dependent on transaction costs and liquidity.

Changes in Policy asset class allocations may be achieved by the movement of capital between asset classes through the trading of pooled funds or through the use of derivatives. The intent is for Policy asset class allocations to be actively managed rather than being allowed to passively drift with recent relative asset class returns.

F. Restrictions, Prohibitions and Authorized Securities

Restrictions, Prohibitions and Authorized Securities of the LTC Fund are defined in the policy governing each asset class or external investment manager guidelines.

VI. CALCULATIONS AND COMPUTATIONS

Investors, managers, consultants, and other participants selected by CalPERS shall make all calculations and computations on a market value basis, as recorded by CalPERS Custodian.

VII. GLOSSARY OF TERMS

Key words used in this policy are defined in CalPERS Master Glossary of Terms.

Long-Term Care

Approved by the Policy Subcommittee:

June 15, 2011

The Long-Term Care Fund was previously Attachment D of the Affiliate Fund Policy. The dates below reflect the revision history of the Affiliate Fund Policy:

Affiliate Fund Policy

Approved by the Policy Subcommittee:

August 18, 2008

Adopted by the Investment Committee:

September 15, 2008

Revised by the Investment Committee:

December 15, 2008

Admin changes made due to Policy Review Project:

June 16, 2009

Admin changes due to adoption of Benchmark Policy:

September 28, 2009

Asset Class Glossary: Asset Allocation
Policy: Long-Term Care (LTC) Fund
July 1, 2011

General Pension Consultant

An individual or organization that provides specialized professional assistance to the Investment Committee in determining the pension fund's asset allocation model or optimal combination of investments in order to maximize risk-adjusted investment returns in a manner consistent with the State's long-term pension liabilities.

Net Asset Value - NAV

The Net Asset Value or NAV is a term used to describe the value of an entity's assets less the value of its liabilities.

Unitized Fund Structure

Unitized Fund Structure allows multiple participants to contribute to a pool of assets while maintaining historical records and producing individual Net Asset Values (NAVs) for each participant. Each participant's share in the portfolio is separately accounted for using a system that accounts for each class of shares' proportional entitlement to the portfolio's Total Net Assets. The system maintains all of the funds' holdings at the fund level, and maintains the fund prices at the class level.

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